Annual Report 2000

New Horizons

Ceapro Inc.

Ceapro Inc. is a biotechnology company specializing in advanced technology applied to extract phytochemicals from oats. The extracts, standardized by Ceapro's technology, are used globally in innovative human and animal health applications. Ceapro's natural products promote the health and well-being of humans and animals. Stated simply:

Nature Enhancing Life®

Significant Events

2000	
January 4	Appointment of Australian/New Zealand animal health distributor
March 1	Colloidal Oat Extract top performer in independent studies
April 18	Completion of debenture financing #2
May 29	Canadian launch of animal health products with McCarthy & Sons
June 1	Extension of research agreement with Nutrinova
June 27	Initiation of joint product development agreement with Cerealia Group (Stockholm, Sweden)
June 28	Japan agreement & launch of functional food ingredients with Daisen Sangyo Co., Ltd.
July 11	Contract orders with Ultravena Industries USA
July 18	Announces major veterinary sale to Japan and
	Ceapro oat shampoo now number one seller in Japanese market
August 3	Closing of convertible debenture #3 for $443,000
August 18	Application to CDNX to re-price outstanding purchase warrants
September 14	Presentation of oat extract technology at Berlin IFSCC conference
September 20	Ceapro disputes petition into bankruptcy
October 20	Major sale of Colloidal Oat Extract to Dragoco
November 20	Legal action against Ceapro terminated
November 23	96% conversion rate of debenture #1 debt into shares
November 27	Announcement to proceed with Saskatchewan lawsuit
December 1	Ceapro oat powder proven as a breakthrough to healthcare industry
December 14	US patent protection awarded for core β glucan technology
2001	
January 5	Completion of debenture financing #4
February 21	Completion of debenture financing #5
March 5	Successful conversion of debenture #2 debt into shares
March 29	Filing of plan to discharge CCAA order
April 9	$5M supply contract with Ultravena Industries USA Ltd.
April 11	Award of Canadian Cereal β glucan patent
April 17	Completion of debenture financing #6
April 20	Award of Australian patent for Diabetes Diagnostic Test
May22	New product launch announced in Japan
May 25	Full discharge of CCAA

Letter to Shareholders

Ceapro is no longer a company in retreat. It is a company that can acclaim its success at overcoming adversity and is moving forward with a new-found confidence. Ceapro is ready to proceed with certainty along the specific paths chosen to direct its promising future.

Ceapro continues its tradition of innovation and discovery. We are the 'oat technology company': we create value through science and technology and realize this value through partnerships and sales.

Ceapro's value, similar to other members of the biotechnology community, is not yet found in our traditional stock valuation ratios but rather in other tangibles:

- **Outstanding technology protected within a portfolio of international patents**
- **A full product pipeline based on platform technology**
- **Strong partnerships with multinational corporations seeking access to cutting-edge technologies and products**
- **An expanding market base for our products**
- **Outstanding people who are committed and creative**

Ceapro diversifies its business over five principle markets: medical, veterinary, technical, nutraceutical[1], and personal care and cosmetics. In this way, the company's overall performance is sheltered from downturns in any single market sector.

Intellectual Capital

Ceapro's portfolio of 29 issued and pending patents protects its core process technology, product formulations, and product application. We are witnessing the maturation of our portfolio and, as a result, an increase in its value. The value is demonstrated by the conversion of this knowledge into marketable products desired by large, multinational corporations.

In December Ceapro received the patent for *Cereal ß glucan formulations and methods of use* invented by Mark Redmond. As of the date of issue, the patent secures Ceapro a 17-year exclusive right to manufacture proprietary ß glucan products for the medical, nutraceutical, and personal care industries. The patent confirms Ceapro's position as the life science industry's leader in cereal glucan technology.

"This patent protects a vital component of Ceapro's advanced separation technologies: the ability to produce liquid ß glucan," stated Dr. Redmond. "Oat ß glucan, a unique and valuable natural polymer, is proven to have important immune stimulatory, wound healing, and gut health-enhancing activities. The product of the new patent finds roles in diverse applications ranging from burn treatments used in hospitals to after-sun products used at home."

> **We have made remarkable progress during the year moving our technology from blueprint to product. The operations team has worked hard and is to be congratulated in meeting and frequently exceeding the market's expectations for innovative, natural, high-performance products.**
>
> *Mark Redmond*

Product Pipeline

Throughout the year, Ceapro has continued to develop products based on its intellectual capital relating to oat extracts and the application of the company's separation technology.

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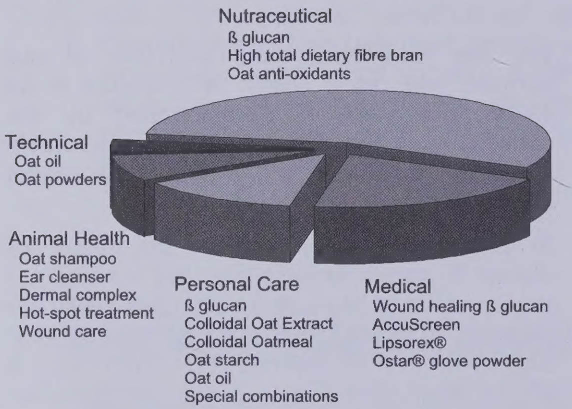
[1] *The term "nutraceutical" is credited to Dr. S. DeFelice. It appears in the 1994 US Dietary Supplement Health & Education Act (DSHEA) proposed guidelines as "any non-toxic food component that has scientifically proven health benefits, including disease treatment or prevention."*

Ceapro product pipeline



In research studies conducted in collaboration with scientists at Dragoco Gerberding, Ceapro's colloidal oat extract was proven to be the market leading oat extract. This conclusion was based on the analysis of the principle ingredients responsible for the anti-irritant and redness reduction properties. Analysis of 18 different commercial oat extracts indicates the Ceapro extract is at least five times more potent than the closest competition. Of the extracts tested, only two products aside from Ceapro's contained detectable amounts of the predominant active ingredients, a class of phytochemicals called avenanthramides. Tests were performed using Ceapro's proprietary fingerprinting technology that allows for the isolation and quantification of active ingredients present in botanical extracts.

Clinical trials, conducted in Japan in conjunction with veterinarians at Nippon Zenyaku Kogyo (NZK) Co. Ltd. indicate that our new veterinary ear cleaner delivers exceptional performance in a form that promotes regular use by the client. The clinical trial data will constitute part of the promotional package to be used during the launch of the *NZK Oat Ear Cleaner* in the summer of 2001.

In the area of functional foods and nutraceutical research, Ceapro is working together with two European companies to develop applications for high fibre oat bran, β glucan and colloidal oat extracts. These partners are the Cerealia Group of Stockholm, Sweden and Nutrinova AG of Frankfurt, Germany.

The joint research and development agreement with Cerealia focussed on the development, human use, and effectiveness of Ceapro's colloidal oat extract anti-oxidants. The project, conducted at the University of Nottingham (UK), resulted in Ceapro granting Cerealia a one-year exclusive right to use the technical discoveries.

Cerealia is an international food group that develops, manufactures, and markets cereal-based products. Cerealia's wide range of products include breads, pastries, flours and mixes, cereals and muesli, snacks, frozen dough products, many forms of pasta, and convenience foods. Cerealia Group employs 4,000 people at 60 facilities in Sweden, Denmark, Norway, Finland, Germany, Poland, Latvia, Ukraine, Spain, and United Kingdom. The Group also exports products worldwide. Cerealia Group sales in 1999 were approximately $1 billion.

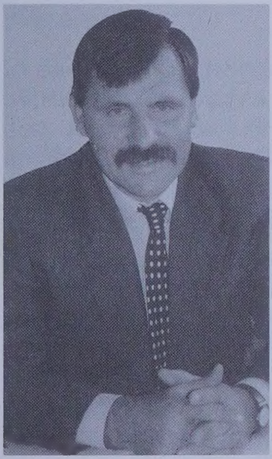
Nutrinova and Ceapro are working in joint R&D co-operation, market research, and formulation testing of our proprietary oat extracts, including high fibre oat bran and oat β glucan. The intent is to conclude a long-term exclusive global distribution agreement at the conclusion of the research period.

Nutrinova Nutrition Specialties & Food Ingredients GmbH, grew out of the former Food Ingredients Business Unit of Hoechst. On September 1, 1997, the Food Ingredients division became an independent, wholly-owned subsidiary of Celanese AG. Nutrinova has operates from dozen sites around the world and several hundred employees.

Nutrinova has evolved into a supplier of integrated systems of specialty ingredients for the food and beverage industry. Nutrinova, dynamic and flexible, is close to the market. Nutrinova's expertise lies in its core businesses of sweetening and food protection. With its production and sales of the successful innovative high intensity sweetener Sunett® (acesulfame K) and the preservatives sorbic acid, potassium sorbate, and calcium sorbate, Nutrinova is a leading, internationally recognized supplier in the areas of sugar replacement and food protection.

Partnerships

Ceapro, in partnership with Dragoco, was invited to address the International Federation of Societies of Cosmetic Chemists meeting in Berlin. The theme of this prestigious meeting was cosmetic science for the 21st century. Ceapro's presentation featured the company's discoveries regarding oat bioactive ingredients and was well received by the audience composed of key members of the scientific and cosmetic industrial community.



Dr. Klaus Stanzl
Dragoco Gerberding & Co. AG

"Today's trend in the cosmetic industry is to use natural ingredients that are carefully tested and documented in performance. Ceapro delivers to Dragoco, two active ingredients which capture this trend. Colloidal Oat Extract, our anti-irritant product, has a proven standardized natural ingredient and Oat Beta Glucan has a great potential future due to its immune stimulating properties."

During the year, Ceapro also developed new partnerships in the animal health sector. Veterinary Marketing Network Pty. Ltd. of Australia joined us in January. On completing the distribution agreement Tony Goodwin, of VMN stated, "We see great opportunity to exploit our market and capture the trend to natural-based health delivery products. Both veterinary professionals and consumers are intensely interested in 'natural' products, provided that they perform to drug-like standards. Under the *NaturOat* brand we expect Ceapro's new products give us this leading edge."

VMN is a well-established distributor in Australia and New Zealand which represents several lines of quality products, including Elanco's small animal health products, to veterinarian hospitals and clinics.

Also announced in June was the partnership with McCarthy & Sons (Canada) for the distribution of our animal health products.

Established in 1968, McCarthy & Sons is one of Canada's leading animal health distribution companies representing several major pharmaceutical lines of products to veterinarians. McCarthy has proceeded to launch the *DermaCoat™* product line in Canada.

Marketing

During 2000, Japanese sales of oat shampoo grew by 30% over the previous year, achieving the position of top-selling veterinary shampoo. Dr. Redmond's Oat Shampoo, introduced to the Japan market by Nippon Zenyaku in August, 1998, has achieved a market share in excess of 50% in less than two years. Additional Ceapro products are expected to be brought to market this year.

Mr. Akio Goda
Daisen Sangyo Co. Ltd.

"Daisen Sangyo Co. has been Ceapro's partner in Japan since 1996. We have always believed that the science behind the Ceapro products would enjoy success in the Japanese market. We are pleased to see this success occurring with animal health products and we hope that the same will occur with Ceapro's functional food products as they come into the market in the near future."

The partnership between Ceapro and Ultravena Industries USA, Ltd. of Green Bay, Wisconsin was formally renewed with the signing of an exclusive five-year $5 million (minimum) contract for *Ceapro Oat Powder*. In 2000 Ceapro shipped 27 tonnes of oat powder to Ultravena's manufacturer in Malaysia.

Since 1994, Ultravena has invested more than $7 million in the development of proprietary processes and formulations used in the latex glove industry, as well as completed the patent and regulatory processes required for gaining secured access to the global medical care markets.

Ultravena has expanded its markets during 2000 and expects significant growth as consumers become familiar with the benefits of its products. In 1996 the US alone imported 20.5 billion medical gloves; these numbers increased due to the law enforcement system and the food service industry adopting glove use to protect against infection.

Results of landmark studies performed by the Mayo Clinic and Ultravena Industries indicate that the total allergen uptake of gloves powdered with conventional dusting powder is dramatically greater than those coated with oat starch. The scientific paper appears in the *Canadian Journal of Allergy and Clinical Immunology (5:8, 2000).*

"This is an important finding that should assist the healthcare industry in dealing with a critical hazard," points out Mark Redmond. "Respiratory allergens use dusting powder as a carrier and a feature of our oat product is a low binding affinity for allergens. When coupled with proprietary glove manufacturing techniques, the market is presented with a glove with significant advantages for both doctors and patients."

The latex sensitivity explosion in the 1990s was caused unknowingly. The recent studies found that conventional dusting powder acts as a magnet to latex protein allergens. The airborne powder was not just an obnoxious white dust which left its mark everywhere, but a carrier for allergens, and a hazard for anyone—glove user or not. Ceapro oat powder enabled the solution: the development of Ultravena's performance quality glove with low allergen and low powder content.

Throughout 2000 we have witnessed an increasing demand for our extracts and the evolution of partnerships through which large multinational corporations access our technology.

The business strategy of alliances and partnerships will accelerate Ceapro's ability to realize its full market potential and enhance our shareholders' investment.

Doug Clement

AccuScreen™

The development and clinical testing phase of AccuScreen™ has been completed and Ceapro has secured production capacity for the completed product at GoodStuff Bakeries in Vancouver, British Columbia.

During spring of 2000 Ceapro engaged in negotiations for licensing AccuScreen™ technology to an international medical group. Ceapro abandoned its negotiations with this group when our due diligence processes indicated that the partnership would not be in Ceapro's or its shareholders' direct interest. Ceapro therefore decided to delay further licensing efforts until 2001 when it expects to have sufficient resources to address the launch of AccuScreen™.

Litigation with Saskatchewan

On November 27, 2000 Ceapro announced that it was proceeding with the lawsuit against the Saskatchewan Government and others in the Court of Queen's Bench, Edmonton, Alberta. The statement of claim filed on November 1, 1999 alleges that the eight parties wrongfully seized and then totally extinguished Ceapro's investment in Canamino Inc. without any or proper compensation. Ceapro remains confident that it will win the case.

CCAA Resolution

CCAA has served its purpose in protecting the company and the shareholder's investment from bankruptcy. However, with Ceapro's business growing and new opportunities presenting themselves, the operating

restrictions imposed by CCAA have limited our ability to seize these opportunities.

Ceapro made preparations to have the CCAA discharged in the fall of 2000, but the need to avert a bankruptcy petition set the action back.

The CCAA initiative has required intensive discussions and negotiations with the creditors. The Ceapro Board approved a plan that offered to pay creditor debts fully in shares. Ceapro proceeded to plan for the CCAA discharge as early as possible in 2001.

Financing

In 2000 Ceapro concluded two convertible debenture placements for a total of $850,000. The funds provided working capital and were used primarily to finance the completion of several critical market-leading products and to finalize distribution agreements for these products.

Ceapro secured operating capital through debenture financing. Ceapro's financing options were bound by restrictions of Arrangements under the Companies' Creditors Arrangement Act (CCAA)[2] that limit the financing vehicles available to companies in Ceapro's position.

As part of Ceapro's strategy to reduce overall corporate debt, we encouraged the holders of $200,000 of debt, which resulted from the capital raised through the convertible debenture issued in 1999, to convert their debt to shares.

Stock Performance

As a biotechnology company, Ceapro benefited from the trend of increased market activity and a resulting increase in share price early in 2000. However, when the market became ambivalent towards biotechnology later in the year, and with increasing concern over the settlement of Ceapro's CCAA, the share price faltered.

Management believes that at the close of 2000 the company's share value failed to fully account for the asset value of Ceapro's intellectual property.

People

Business operation continued to demand on-going personal sacrifices from management. During 2000, staff numbers were maintained but management identified the need for additional resources, especially in financial and manufacturing areas.

Ceapro remains very aware that as a technology-based company its human capital is one of its most important assets. Even throughout its most difficult times we have managed to ensure that key business and science expertise has been retained.

Moving Forward

The year 2000 was a year for growth, to expand our capacity to make products, to forge new, strong alliances in research and distribution, and to increase the market-share for our products in personal care and animal health. We continued to face challenges, in particular the financing of operations while under CCAA. With determination we succeeded in meeting these challenges.

This is my final Annual Report as president & CEO of your company. When I joined Ceapro five years ago I had not intended to stay this long. However, the difficulties faced by the company caused all of us to remain and try to resolve these difficulties. It is now time for new ideas and new thought to move the company forward so as to realize its potential. I thank you and the Board for your support and wish the management and the new Board success in the near and long term.

Sincerely,

Robert A Binnendyk

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[2] A plan of arrangement under the CCAA provides a mechanism for a company to restructure its financial and business operations while under court protection. CCAA and corporate proposals increase the likelihood of preserving core operations in addition to the existing employee base. CCAA and corporate proposals also allow for the sale of assets and/or divisions, operational downsizing and repayment of creditor debt in an orderly fashion.

CEAPRO INC.

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

AUDITORS' REPORT

To: The Shareholders of
CEAPRO INC.

We have audited the balance sheets of **Ceapro Inc.** as at December 31, 2000 and 1999, and the statements of loss, deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

Stout & Company

Chartered Accountants

Edmonton, Canada
March 1, 2001
(except as to note 17(c), which is as of April 25, 2001)

CEAPRO INC.

BALANCE SHEETS - DECEMBER 31, 2000 AND 1999

	2000	1999
ASSETS		
CURRENT ASSETS		
Cash	$ 37,676	$ 24,020
Accounts receivable	70,362	87,903
Inventories (note 4)	63,635	46,069
Prepaid expenses	8,897	9,422
	180,570	167,414
CAPITAL ASSETS (note 5)	113,578	123,927
	$ 294,148	$ 291,341
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (note 2)	$ 1,752,415	$ 1,637,343
Loans payable (note 6)	133,623	226,000
Current portion of convertible debentures	300,492	223,243
Current portion of long-term debt	25,137	22,934
	2,211,667	2,109,520
CONVERTIBLE DEBENTURES (note 7)	418,941	-
LONG-TERM DEBT (note 8)	54,517	79,654
	2,685,125	2,189,174
SHARE CAPITAL AND DEFICIT		
SHARE CAPITAL (note 9)	44,329,465	43,906,714
DEFICIT	(46,720,442)	(45,804,547)
	(2,390,977)	(1,897,833)
	$ 294,148	$ 291,341

Going concern (note 2)

See accompanying notes

Approved On Behalf Of The Board

Director: John Zupancic

Director: ________________

CEAPRO INC.

STATEMENTS OF LOSS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
Sales (note 12)	$ 808,854	$ 326,373
Cost of sales	517,683	163,315
Gross margin	291,171	163,058
Royalties and licences	-	298,000
	291,171	461,058
Expenses		
General and administrative	777,793	826,266
Research and development	293,428	278,564
	1,071,221	1,104,830
Loss before interest and amortization	780,050	643,772
Interest on convertible debentures	86,386	5,455
Interest on long-term debt	8,548	6,496
Amortization	27,993	30,692
	122,927	42,643
Loss before the following	902,977	686,415
Loss on disposal of capital assets	12,918	-
Write-down of intangible assets (note 13)	-	182,655
LOSS FOR THE YEAR	$ 915,895	$ 869,070
LOSS PER SHARE	$ 0.04	$ 0.04

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF DEFICIT

YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
Deficit at beginning of year	$ 45,804,547	$ 44,935,477
Loss for the year	915,895	869,070
DEFICIT AT END OF YEAR	$ 46,720,442	$ 45,804,547

Going concern (note 2)

See accompanying notes

CEAPRO INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
OPERATING ACTIVITIES		
Loss for the year	$ (915,895)	$ (869,070)
Add items not affecting cash		
Amortization	27,993	30,692
Loss on disposal of capital assets	12,918	-
Write-down of intangible assets	-	182,655
	(874,984)	(655,723)
Changes in non-cash working capital items		
Accounts receivable	17,541	(7,823)
Inventories	(17,566)	(37,900)
Prepaid expenses	525	18,739
Accounts payable and accrued liabilities	115,072	376,029
	(759,412)	(306,678)
INVESTING ACTIVITIES		
Reduction of loan receivable	-	50,000
Purchase of capital assets	(33,104)	(81,667)
Proceeds on disposal of capital assets	2,541	-
	(30,563)	(31,667)
FINANCING ACTIVITIES		
Decrease in loans payable	(92,377)	(30,411)
Proceeds from convertible debentures	788,829	237,058
Proceeds from exercise of warrants	99,941	-
Proceeds from exercise of options	6,500	-
(Decrease) increase in long-term debt	(22,934)	52,588
Government assistance	-	50,000
Issuance of common shares	23,672	45,801
	803,631	355,036
Increase in cash	13,656	16,691
Cash at beginning of year	24,020	7,329
CASH AT END OF YEAR	$ 37,676	$ 24,020

Going concern (note 2)

See accompanying notes

CEAPRO INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

1. NATURE OF BUSINESS OPERATIONS

Ceapro Inc. (the "company") was incorporated under the Business Corporations Act of Alberta and is listed on the Canadian Venture Exchange Inc. The company's primary business activities relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

2. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. However, the company has experienced significant operating losses and its ability to continue operations is dependent upon achieving profitability or securing additional debt or equity financing. The use of generally accepted accounting principles that are applicable to a going concern may be inappropriate because there is significant doubt about the appropriateness of the going concern assumption.

These financial statements do not give effect to adjustments to the amounts and classifications of assets and liabilities that would be necessary should the company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those in the accompanying financial statements.

On February 27, 1998, the company obtained an order of the Court of Queen's Bench of Alberta pursuant to the Companies' Creditors Arrangement Act to facilitate a restructuring of its unsecured debt. On March 2, 1998, the company submitted a formal plan of arrangement whereby it proposed to pay its unsecured creditors with a claim of greater than $1,000, by payment of one third of their claim in cash and two thirds in Class A shares of the company based on a share price of $1.25. Unsecured creditors with a claim of less than $1,000 were proposed to be paid in cash only. On March 25, 1998, the unsecured creditors voted to accept the plan of arrangement. On May 26, 1998, an Order of the Court of Queen's Bench of Alberta was issued approving the plan and the shares were issued. At December 31, 2000 and 1999, included in accounts payable and accrued liabilities is approximately $960,000 pursuant to the plan of arrangement (see note 17(c)).

3. ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant area requiring the use of management estimates relates to amortization of capital assets and the interest rate used in determining the equity component of the convertible debentures. Actual results could differ from those estimates.

(b) Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost on a first-in, first-out basis.

Inventory of work-in-progress and finished goods is valued at the lower of cost and net realizable value on a first-in, first-out basis.

(c) Capital assets

Capital assets are recorded at cost and are amortized over their estimated useful lives as follows:

Office and manufacturing equipment	20% declining balance
Computer equipment	30% declining balance
Leasehold improvements	25% straight-line
Manufacturing equipment under capital lease	20% declining balance

(d) Research and development expenditures

Research costs are expensed when incurred. Development costs are also expensed when incurred unless they are significant and meet generally accepted criteria for deferral. Costs are reduced by government grants and investment tax credits where applicable.

(e) Foreign currency

Monetary assets and liabilities recorded in a foreign currency are translated into Canadian dollars at period end exchange rates and non-monetary assets at the exchange rates prevailing when the assets were acquired. Foreign currency denominated revenue and expense items are translated at the rate of exchange in effect at the time of the transaction. Foreign currency gains or losses arising on translation are included in income except those pertaining to long-term debt which are deferred and amortized over the remaining term of the debt.

3. ACCOUNTING POLICIES (continued)

(f) Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under the liability method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided.

(g) Lease obligations

Leases are classified as capital or operating leases. A lease that transfers substantially all of the benefits and risks incidental to the ownership of property is classified as a capital lease. At the inception of a capital lease, an asset and an obligation are recorded at an amount equal to the lesser of the present value of the minimum lease payments and the property's fair value at the beginning of the lease. All other leases are accounted for as operating leases wherein payments are expensed as incurred.

(h) Government assistance

Government assistance is periodically applied for under available government incentive programs. Government assistance relating to capital assets and research and development expenditures are recorded as a reduction of the expenditures when received.

(i) Investment tax credits

Investment tax credits relating to qualifying scientific research and experimental development expenditures are accrued provided there is reasonable assurance that the credits will be realized. When recorded, the investment tax credits are accounted for as a reduction of the related expenditures.

(j) Net income (loss) per share

Net income (loss) per share is calculated based on the weighted average number of shares outstanding during the year. Fully diluted net income (loss) per share reflects the dilutive effect of conversion of the convertible debentures and the exercise of warrants and stock options. Per share amounts, when antidilutive, are not disclosed.

CEAPRO INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2000 AND 1999

4. INVENTORIES

	2000	1999
Inventories consist of the following:		
Raw materials	$ 52,636	$ 41,251
Work-in-progress	10,999	4,818
	$ 63,635	$ 46,069

5. CAPITAL ASSETS

	2000		
	Cost	Accumulated Amortization	Net
Office and manufacturing equipment	$ 124,470	$ 55,012	$ 69,458
Computer equipment	95,463	74,536	20,927
Manufacturing equipment under capital lease	30,517	7,324	23,193
	$ 250,450	$ 136,872	$ 113,578

	1999		
	Cost	Accumulated Amortization	Net
Office and manufacturing equipment	$ 126,686	$ 63,762	$ 62,924
Computer equipment	95,463	65,567	29,896
Leasehold improvements	5,333	3,217	2,116
Manufacturing equipment under capital lease	30,517	1,526	28,991
	$ 257,999	$ 134,072	$ 123,927

6. LOANS PAYABLE

	2000	1999
10% loans payable to employees	$ 2,500	$ 17,500
12% loan payable to a shareholder	22,623	-
10% loan payable, secured by a general security agreement	10,000	10,000
Loans payable, non-interest bearing	98,500	198,500
	$ 133,623	$ 226,000

The loans payable have no fixed terms of repayment and are due on demand.

7. CONVERTIBLE DEBENTURES

	2000	1999
Series 1	$ 28,252	$ 223,243
Series 2	272,240	-
Series 3	418,941	-
	719,433	223,243
Less current portion	300,492	223,243
	$ 418,941	$ -

(a) Series 1

During the year ended December 31, 2000, convertible debentures with a face value of $207,057 were converted into 828,628 common shares.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in April and November. The debentures are due on or before October, 2003, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.50	January, 2001 to October, 2001
$ 0.80	October, 2001 to October, 2002
$ 1.00	October, 2002 to October, 2003

Upon issuance, the liability component of the convertible debenture was valued at $223,243, representing the present value of future minimum cash payments to be made by the company. The remaining $13,815 was reclassified to share capital in the year ended December 31, 1999 (see note 9(b)).

7. CONVERTIBLE DEBENTURES (continued)

(b) Series 2

During the year ended December 31, 2000, convertible debentures with a face value of $344,860 were issued by the company. Debentures with a face value of $57,250 were subsequently converted into 229,000 common shares.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in February and August. The debentures are due on or before February, 2004, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.25	January, 2001 to February, 2001
$ 0.50	February, 2001 to February, 2002
$ 0.80	February, 2002 to February, 2003
$ 1.00	February, 2003 to February, 2004

Upon issuance, the liability component of the convertible debenture was valued at $326,430, representing the present value of future minimum cash payments to be made by the company. The remaining $18,430 was reclassified to share capital in the year ended December 31, 2000, (see note 9(b)).

(c) Series 3

During the year ended December 31, 2000, convertible debentures with a face value of $443,969 were issued by the company.

The convertible debentures are unsecured, interest bearing at 12% per annum, with interest payable semi-annually in January and July. The debentures are due July, 2004, or convertible into common shares of the company at the option of the holder as follows:

Conversion Rate per Common Share	Conversion Date
$ 0.40	January, 2001 to July, 2001
$ 0.75	July, 2001 to July, 2002
$ 1.05	July, 2002 to July, 2003
$ 1.40	July, 2003 to July, 2004

Upon issuance, the liability component of the convertible debenture was valued at $418,941, representing the present value of future minimum cash payments to be made by the company. The remaining $25,028 was reclassified to share capital in the year ended December 31, 2000, (see note 9(b)).

8. LONG-TERM DEBT

	2000	1999
Capital lease obligation, payable $1,586 per month, due October, 2003. Manufacturing equipment under capital lease has been provided as security.	$ 53,913	$ 72,941
Less amounts representing interest at 9.5%	6,809	12,005
	47,104	60,936
Loan, payable $3,113 per quarter principal and interest at prime plus 2%, due December, 2003.	32,550	41,652
	79,654	102,588
Less current portion	25,137	22,934
	$ 54,517	$ 79,654

Future minimum lease payments and principal payments due in the next three years are as follows:

2001	$ 28,953
2002	29,851
2003	27,659
	$ 86,463

9. SHARE CAPITAL

(a) Authorized

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares

(b) Issued - Class A common shares

	2000		1999	
	Number of shares	Amount	Number of shares	Amount
Balance at beginning of year	21,229,807	$ 43,906,714	21,091,015	$ 43,847,098
Issued during the year for:				
Exercise of warrants	256,258	99,941	-	-
Exercise of options	50,000	6,500	-	-
Conversion of debentures	1,057,230	249,180	-	-
Employee and director remuneration	101,331	23,672	138,792	45,801
	1,464,819	379,293	138,792	45,801
	22,694,626	44,286,007	21,229,807	43,892,899
Convertible debentures equity component (see note 7)	-	43,458	-	13,815
	22,694,626	$ 44,329,465	21,229,807	$ 43,906,714

(c) Stock options outstanding are as follows:

2000		
Exercise Price	Number of Options	Year of Expiration
$ 0.12	810,000	2005
$ 0.25	1,100,000	2004
$ 1.00	75,000	2004
$ 1.00	266,667	2003
	2,251,667	

9. SHARE CAPITAL (continued)

Stock options outstanding are as follows:

1999		
Exercise Price	Number of Options	Year of Expiration
$ 0.25	1,100,000	2004
$ 1.00	75,000	2004
$ 1.00	266,667	2003
$ 0.13	350,000	2000
	1,791,667	

During the year ended December 31, 2000, the company issued a total of 810,000 stock options exercisable at $0.12 per common share.

During the year ended December 31, 2000, 50,000 stock options were exercised for proceeds of $6,500, and 300,000 stock options expired.

(d) Warrants outstanding were as follows:

During the year ended December 31, 2000, 1,248,594 warrants were repriced to an exercise price of $0.39 per warrant. Subsequent to the repricing, 256,258 warrants were exercised for proceeds of $99,941, and 992,336 warrants expired. There are no warrants outstanding at December 31, 2000.

1999		
Exercise price	Number of common shares	Year of expiration
$ 1.00	1,248,594	2000

10. COMMITMENTS

(a) The company rents premises and equipment under long-term operating leases. Future minimum annual lease payments, excluding operating costs, are as follows:

	2001	2002
Premises	$ 39,774	$ -
Equipment	1,925	311
	$ 41,699	$ 311

10. COMMITMENTS (continued)

(b) Pursuant to a technology license agreement, the company has exclusive rights to certain patents and trade secrets. The license expires on the later of the date of expiration of the last remaining patent or 10 years from the date of first commercial sale of the licensed product, which is defined as a calendar month with sales greater than $50,000.

As a condition of the technology license agreement, the company has agreed with the University of Saskatchewan (U of S) that by June 30, 2000, it will effect payment to the U of S for a minimum of $500,000 for research and development to be conducted at the U of S, of which not less than $300,000 shall be effected by May 1, 1998.

Subsequent to December 31, 1999, the company entered into a Memorandum of Understanding (MOU) with the U of S, subject to approval from the U of S Board of Directors. The MOU revises the existing technology license agreement in that the company and the U of S will work towards a research and development project in the amount of $500,000 with the terms and conditions to be determined by December 31, 2001. If the company and the U of S cannot agree on a research and development project by December 31, 2001, then the company will pay the U of S, on or before June 30, 2004, $150,000, net of costs incurred by the company to settle the original technology license agreement.

11. CONTINGENCIES

(a) On May 5, 1998, control of the company's wholly owned subsidiary, Canamino Inc. ("Canamino") was assumed by Canamino's Class B preferred shareholder, the Saskatchewan Government Growth Fund Ltd. ("SGGF"), due to default of payment of dividends due in October, 1997, and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. Control was gained through the assumption of 51% of the voting entitlement attached to the Class A common shares.

On November 1, 1999, the company filed an Amended Statement of Claim ("the claim") with the Court of Queen's Bench of Alberta. The principal defendant in the claim is SGGF. The claim alleges that the company has suffered damage to goodwill and other property, including its investment in Canamino. The claim asks for damages of $64,740,000. At December 31, 2000, the status of the claim was undeterminable.

(b) Pursuant to a letter of undertaking dated June 9, 1995, the company agreed with the Royal Bank of Canada, a lender to Canamino, to provide sufficient funds to Canamino to service loans and prevent covenant breaches of Canamino should this become necessary.

On October 1, 1998, Canamino was placed in receivership and on January 19, 1999, the Royal Bank of Canada made a demand of $2,718,000 on the company (see note 11(a)). On October 20, 1999, the Royal Bank of Canada released the company from all claims for nominal consideration.

11. CONTINGENCIES (continued)

(c) The company has guaranteed the payment of royalties by Canamino to an unrelated third party. The royalty agreement of Canamino required it to pay royalties calculated as the greater of 3% of Canamino's sales or the following annual amounts:

1997	$ 75,000
1998	$ 200,000
1999	$ 200,000
Thereafter per year	$ 250,000

It is managements' opinion that no amount is payable related to this guarantee, due to the following:

i) the unrelated third party no longer holds the rights to the technology upon which the royalties were due;
ii) the bankruptcy of Canamino (see note 11(a)); and
iii) the Amended Statement of Claim (see note 11(a)).

No amounts have been accrued or paid at December 31, 2000 and 1999.

(d) In the normal course of operations the company may be subject to litigation and claims from customers, suppliers and former employees. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the company.

12. SALES

Substantially all sales are export sales.

13. INTANGIBLE ASSETS

During the year ended December 31, 1999, the company reviewed the carrying value of certain intangible assets by comparing expected future operating cash flows to the unamortized values of such assets. The company also considered other factors such as current operating results, future uncertainties with respect to supply of raw materials and changes in technology.

During the year ended December 31, 1999, it was determined that the recoverable amount of the patents capitalized at December 31, 1998 was nominal and, as a result, the company wrote down the carrying value of intangible assets by $182,655.

14. RELATED PARTY TRANSACTIONS

Related party transactions during the years not otherwise disclosed in these financial statements are as follows:

	2000	1999
Transactions with directors and employees		
Interest expense paid or payable to directors and employees	$ 16,277	$ 4,458
Amount payable to directors and employees included in accounts payable and accrued liabilities	$ 44,800	$ 65,441
Amounts receivable from directors and employees and included in accounts receivable	$ 3,254	$ 57,009
Convertible debentures payable to directors and employees	$ 112,665	$ 30,466

These transactions are considered to be in the normal course of business operations and are recorded at fair market value.

15. INCOME TAXES

(a) Non-capital losses

The company has accumulated non-capital losses carried forward for income tax purposes of approximately $10,723,000, the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and expire as follows:

2001	$ 1,336,000
2002	2,838,000
2003	1,074,000
2004	2,155,000
2005	1,748,000
2006	661,000
2007	911,000
	$ 10,723,000

(b) Net capital losses

The company has net capital losses of approximately $6,807,000, which can be carried forward indefinitely to offset future taxable capital gains.

15. INCOME TAXES (continued)

(c) Scientific research and experimental development (SR & ED)

The company has an accumulated SR & ED expenditure pool of approximately $1,506,000, which can be carried forward indefinitely to be applied against future taxable income.

The company has accumulated SR & ED investment tax credits of approximately $264,000. These credits may be applied against future federal income taxes payable and expire as follows:

2004	$ 25,300
2005	65,800
2006	37,900
2007	119,000
2008	16,000
	$ 264,000

(d) Temporary differences

A future income tax asset reflects the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the company's future tax assets are as follows:

Deductible temporary differences:

	2000	1999
Non-capital losses and SR & ED expenditures carried forward	$ 12,229,000	$ 12,162,000
Deductible refinancing and share issue costs	8,000	33,000
Undepreciated capital cost for tax purposes in excess of net book value	248,000	207,000
Tax value of intangible assets in excess of amounts recorded in financial statements	2,944,000	2,946,000
	$ 15,429,000	$ 15,348,000

For financial statement purposes, no future income tax asset has been recorded at December 31, 2000 and 1999.

15. INCOME TAXES (continued)

(e) Income tax rate reconciliation

The reconciliation of the company's effective income tax rate for the years ended December 31, 2000 and 1999 are as follows:

	2000	1999
Federal income tax rate	38.00%	38.00%
Provincial income tax rate, net of federal abatement	5.50	5.50
	43.50	43.50
Federal surtax	1.12	1.12
Applicable tax rate	44.62	44.62
Income tax rate reduction as a result of current year loss incurred for income tax purposes	(44.62)	(44.62)
Effective income tax rate	- %	- %

16. GOVERNMENT ASSISTANCE

In the year ended December 31, 2000, the company received financial assistance (which is not repayable) from the National Research Council Canada in the amount of $52,904. The assistance related to testing the feasibility of new processing methods for oat extracts and expired March 31, 2000.

In the year ended December 31, 1999, the company received financial assistance (which is not repayable) from AVAC Ltd., a government funded agency, in the amount of $164,882 for the research and development of new products, patents and markets. The company must pay a 5% royalty on all sales generated through products developed by these funds. The royalty is payable until a maximum of $329,763 has been paid. During the year ended December 31, 2000, $25,000 was accrued for payment of royalties. The amount is included in general and administrative expenses for the year ended December 31, 2000.

The financial assistance was recorded as a reduction of expenditures as follows:

	2000	1999
Capital assets	$ -	$ 50,000
Research and development	52,904	114,882
	$ 52,904	$ 164,882

17. SUBSEQUENT EVENTS

(a) Issuance of common shares

In February, 2001, the company issued 1,090,440 common shares for gross proceeds of $266,610. The share issuance relates to the conversion of debentures.

(b) Convertible debentures

On February 5, 2001, the company issued $405,074 in Series 4 convertible debentures. The debentures are unsecured, bear interest at 10% and are due on February 5, 2005.

(c) Forgiveness of debt

Subsequent to the year end, trade creditors of approximately $72,000 forgave the company's indebtedness. These creditors were included in the $960,000 amount referred to in the plan of arrangement dated March 2, 1998 (see note 2).

(d) The Companies' Creditors Arrangement Act

On April 25, 2001, the Court of Queen's Bench of Alberta approved the settlement of accounts payable and accrued liabilities owing related to the plan of arrangement pursuant to the Companies' Creditors Arrangement Act. The settlement calls for the issuance of approximately 4,400,000 common shares at $0.20 per share, and cash payments to all unsecured creditors owed $1,000 or less. The settlement is subject to approval of the Alberta Securities Commission and the Canadian Venture Exchange Inc. (see note 2).

18. FINANCIAL INSTRUMENTS

The estimated fair value of cash, accounts receivable and accounts payable and accrued liabilities approximates their carrying value due to their short-term nature.

The estimated fair value of the non-interest bearing loans payable could not be determined due to the difficulty in finding a financial instrument on the market having substantially the same economic characteristics.

The fair value of long-term debt and convertible debentures are estimated using the company's incremental borrowing rate or discounted cash flow analysis for similar types of borrowing arrangements.

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with financial statement presentation adopted for the current year.

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Directors and Officers

Board of Directors

John Zupancic

Chairman of the Board

Robert A. Binnendyk

President and Chief Executive Officer

Ceapro Inc.

Daniel Koyich

President

JeanDan Management

Donald J. Oborowsky

President and Chief Executive Officer

Waiward Steel Fabricators Ltd.

Edward Taylor

Vice President, Finance & Administration

Chief Financial Officer

Biomira Inc.

John Yewchuk

President and Chief Executive Officer

Thermo King Western Limited

Officers and Corporate Management

Robert A. Binnendyk

President and Chief Executive Officer

Douglas Clement

Vice President

Kenneth Pilip

Senior Vice President

Dr. Mark Redmond

Vice President

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Edmonton, AB

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Stout and Company
Edmonton, AB

Registrar and Transfer Agent
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Stock Exchange Listing
Shares of the Company are listed on the Canadian Venture Stock Exchange (CDNX)under the Trading Symbol **CZO**

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